Cognizant

Fourth Quarter 2018

Financial Results and Highlights

February 6, 2019

Forward-Looking Statements

This earnings supplement includes statements which may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the accuracy of which are necessarily subject to risks, uncertainties, and assumptions as to future events that may not prove to be accurate. These statements include, but are not limited to, express or implied forward-looking statements relating to our plans and expectations regarding opportunities in the marketplace, investment in and growth of our business, our shift to digital services and solutions, our anticipated financial performance and our capital return program. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those contemplated in these forward-looking statements. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Factors that could cause actual results to differ materially from those expressed or implied include general economic conditions, the failure of the new CEO to join the Company in the timeframe expected, or at all, changes in the regulatory environment, including with respect to immigration and taxes, and the other factors discussed in our most recent Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. Cognizant undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities law.

Continued execution of our strategy to drive sustainable revenue and earnings growth

4Q'18 Results

Consolidated Revenue[1,2]

$4.13B

+7.9% Y/Y
+8.8% Y/Y Constant Currency (CC[2])

- Results at the high end of our guided range
- Digital revenue growth ~25% Y/Y
- Digital over 30% of total revenue

Operating Margin[1, 2]

16.8%	19.5%
GAAP Operating Margin	Non-GAAP Operating Margin

Non-GAAP Operating Margin
-20bps Y/Y

- **Adjusted Operating Margin of 17.0%**

EPS[1, 2]

$1.12	$1.13
GAAP Diluted EPS	Non-GAAP Diluted EPS

Non-GAAP Diluted EPS
+9.7% Y/Y

- **Adjusted Diluted EPS of $0.98**

FY'18 Results

Consolidated Revenue[1,2]

$16.13B

+8.9% Y/Y
+8.5% Y/Y Constant Currency (CC[2])

- Results within guidance range
- Expanded segment and geographic diversity

Operating Margin[1, 2]

17.4%	20.7%
GAAP Operating Margin	Non-GAAP Operating Margin

Non-GAAP Operating Margin
+100bps Y/Y

- **Adjusted Operating Margin of 18.1%**
- Non-GAAP operating margin in line with guidance of ~21%

EPS[1, 2]

$3.60	$4.57
GAAP Diluted EPS	Non-GAAP Diluted EPS

Non-GAAP Diluted EPS
+21.2% Y/Y

- **Adjusted Diluted EPS of $4.02**

[1] On January 1, 2018 we adopted ASC Topic 606, "Revenue from Contracts with Customers," or the New Revenue Standard, using the modified retrospective method. Results for reporting periods beginning on or after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. For the three months ended December 31, 2018, adoption of the New Revenue Standard had a positive impact on revenue of $11 million, income from operations of $30 million and diluted earnings per share of $0.04 per share. For the year ended December 31, 2018, adoption of the New Revenue Standard had a positive impact on revenue of $96 million, income from operations of $134 million and diluted earnings per share of $0.19 per share.

[2] Non-GAAP operating margin and non-GAAP diluted EPS exclude stock-based compensation expense, acquisition-related charges and unusual items, and non-GAAP diluted EPS additionally excludes net non-operating foreign currency exchange gains or losses and the tax impact of the applicable adjustments. Adjusted Operating Margin and Adjusted Diluted EPS exclude only unusual items, and Adjusted Diluted EPS additionally excludes net non-operating foreign currency exchange gains or losses and the tax impact of all the applicable adjustments. Constant currency revenue growth, or CC, is a non-GAAP financial measure defined as revenues for a given period restated at the comparative period's foreign currency exchange rates measured against the comparative period's reported revenues. Reconciliations of non-GAAP operating margin, non-GAAP diluted EPS, Adjusted Operating Margin, and Adjusted Diluted EPS to the corresponding GAAP measures are included at the end of this earnings supplement.

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Steady progress on segment diversification

Results in ($M)	4Q'18			FY'18		
		Y/Y Growth %	Y/Y Growth % (CC)		Y/Y Growth %	Y/Y Growth % (CC)
Financial Services	**$ 1,451**	1.7%	2.8%	**$ 5,845**	3.7%	3.4%
Healthcare	**1,202**	6.8%	7.0%	**4,668**	9.5%	9.3%
Products and Resources	**891**	13.9%	15.4%	**3,415**	12.3%	11.7%
Communications, Media and Technology	**585**	18.4%	20.1%	**2,197**	17.4%	17.0%
Total Revenues	**$ 4,129**	**7.9%**	**8.8%**	**$ 16,125**	**8.9%**	**8.5%**

Segment Insights

Financial Services

- Growth was stronger among Insurance customers
- Clients focused on cost optimization, regulatory compliance, and the adoption and integration of digital technologies

Healthcare

- Clients focused on compliance, integrated health management, claims investigative services, services that drive operational improvements (claims processing, enrollment, membership and billing), and the adoption and integration of digital technologies

Products and Resources

- Growth strongest among energy and utilities customers and manufacturing and logistics customers
- Customers focused on operational efficiency, enablement and integration of mobile platforms, and adoption and integration of digital technologies

Communications, Media and Technology

- Growth driven by clients' need to manage digital content, create differentiated user experiences, expand their range of services, including business process services, transition to agile development methodologies, enhance their network and adopt and integrate digital technologies, such as cloud enablement and interactive and connected products

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Successful expansion of geographic footprint

Results in ($M)	4Q'18			FY'18		
		Y/Y Growth %	Y/Y Growth % (CC)		Y/Y Growth %	Y/Y Growth % (CC)
North America	**$ 3,144**	6.7%	6.7%	**$ 12,293**	7.4%	7.4%
United Kingdom	***330***	*15.0%*	*17.9%*	***1,274***	*10.8%*	*7.6%*
Rest of Europe	***410***	*18.8%*	*22.3%*	***1,563***	*25.2%*	*22.2%*
Europe - Total	**740**	17.1%	20.3%	**2,837**	18.3%	15.2%
Rest of World	**245**	-1.6%	4.7%	**995**	3.4%	6.1%
Total Revenues	**$ 4,129**	**7.9%**	**8.8%**	**$ 16,125**	**8.9%**	**8.5%**

Geographic Insights

- Continued investment in core markets across Europe and Asia-Pacific present significant growth opportunities. 2018 accomplishments include:
    - Expanding client roster
    - New delivery and operational centers
    - A critical mass of local talent in these markets
    - Acquisitions of Softvision and Hedera in Continental Europe and SaaSfocus in Asia Pacific
- Results in Asia Pacific continued to be impacted by certain large banking customers' focus on cost optimization

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Additional revenue and operating metrics

Results in ($M)	4Q'18		FY'18	
Type of Contract:		% of Total Revenues		% of Total Revenues
Time and Materials	$ 2,147	52.0%	$ 8,470	52.5%
Fixed-Price	1,511	36.6%	5,966	37.0%
Transaction or Volume Based	471	11.4%	1,689	10.5%
Service Line:				
Consulting and Technology Services	$ 2,404	58.2%	$ 9,309	57.7%
Outsourcing Services Revenue	1,725	41.8%	6,816	42.3%
Additional Revenue Insights:				
Top five customers		8.9%		8.6%
Top ten customers		15.6%		15.4%

	4Q'18	3Q'18	4Q'17
Employees	**281,600**	274,200	260,000
Q/Q Change	**+2.7%**		
Y/Y Change	**+8.3%**		
Quarterly Annualized Attrition	**19%**	22%	18%
Utilization			
Offshore (excluding trainees)	**83%**	83%	83%
Onsite	**92%**	93%	92%

Continuing to build on operational improvements

Operating Expense

	4Q'18		FY'18	
	As a % of Revenue	Y/Y Change	As a % of Revenue	Y/Y Change
Cost of Revenues	61.5%	-20 bps	61.0%	-80 bps
Selling, General and Administrative Expenses	18.8%	+50 bps	18.8%	+10 bps

FY'18 Cost of Revenues

- Operating efficiencies due to optimization of resource pyramid driving lower compensation and benefits costs as a percent of total revenue, improved utilization and depreciation of the Indian rupee against the U.S. dollar

FY'18 Selling, General and Administrative Expenses

- Funding of the Cognizant U.S. Foundation and FCPA Accrual increased SG&A by 0.8% of revenue
- Decrease in compensation and benefit costs as a percent of revenue as a result of efforts to contain corporate spend

Operating Margin

	4Q'18	Y/Y Change	FY'18	Y/Y Change
GAAP operating margin	16.8%	-40 bps	17.4%	+60 bps
Non-GAAP operating margin	19.5%	-20 bps	20.7%	+100 bps
Adjusted Operating Margin	17.0%	-30 bps	18.1%	+80 bps

- Improvements in FY'18 operating margin due to margin enhancement initiatives (optimization of resource pyramid, improvement of utilization and the containment of corporate spend)
- Net of hedges, FY'18 margins benefitted from depreciation of the Indian rupee versus the prior year quarter by +46bps
- Solid margin performance allowed for the absorption of wage increases and promotions in the second half while achieving the full year non-GAAP operating margin target

Strong balance sheet and cash generation supports capital deployment commitments

Cash and Financing

- Finished 2018 with **$4.5B** of cash and short-term investments, down **$545M** from 2017
- Outstanding debt balance was **$745M** at the end of the year
- Operating cash flows for FY'18 were **$2.6B**

Capital Deployment

Results in ($B)	FY'18	As a % of FY FCF[1]
FCF[1] – Worldwide	**$ 2.2**	
Dividends Paid	$ 0.5	~21%
Stock Repurchases	$ 1.2	~55%
Acquisitions	$ 1.1	~50%

- FCF[1] / Net Income ~1x
- 4Q'18: Repurchased 3.6M shares
- 4Q'18: Diluted share count decreased to 579M shares
- $2.5B remaining balance under Board authorized stock repurchase program

Acquisitions- TTM Summary

Softvision	Digital engineering and consulting company with significant operations in Romania and India that focuses on agile development of custom cloud-based software and platforms for customers primarily in the United States – *Closed Nov 2018*
Advanced Technology Group	United States based consulting company that helps companies plan, implement, and optimize automated cloud-based quote-to-cash business processes and technologies - *Closed Oct 2018*
SaaSfocus	Salesforce services provider in Australia – *Closed Oct 2018*
Hedera Consulting	Business advisory and data analytics service provider in Belgium and the Netherlands – *Closed Apr 2018*
Bolder Health Care Solutions	Revenue cycle management solutions to the healthcare industry in the United States – *Closed Apr 2018*

[1] Free Cash Flow (FCF) is a non-GAAP financial measure defined as cash flows from operating activities net of purchases of property and equipment. Reconciliations of FCF to the corresponding GAAP measures are included at the end of this earnings supplement.

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Guidance

Revenue Guidance[1,4]	
1Q'19	7.5-8.5%Y/Y in CC[2]
FY'19	7.0-9.0% Y/Y in CC[3]

Additional Full Year 2019 Guidance[1,4]	
Adjusted Operating Margin	Approximately 19%
Tax Rate	24-26%
Share Count	Approximately 578 million
EPS	At least $4.40

Capital Deployment Plan

- *Utilize ~ 50% of global FCF annually for dividends and share repurchases*
- *Maintain a dividend payout ratio of ~20%*
- *Reduce our outstanding share count by ~1% annually*
- *~25% of our annual global FCF to be used for acquisitions that enhance our longer term strategy of enriching our digital capabilities, expanding our geographic footprint and enhancing our vertical expertise*

[1] Guidance is as of February 6, 2019
[2] 1Q'19 revenue guidance based on current exchange rates translates to growth of 5.8-6.8% reflecting our assumption of a negative 170 bps for foreign exchange
[3] FY'19 revenue guidance based on current exchange rates translates to growth of 6.3-8.3% reflecting our assumption of a negative 70 bps for foreign exchange
[4] Guidance does not account for any potential impact from events such as changes to immigration and tax policies.

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Appendix:
Reconciliation of Non-GAAP Financial Measures

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Reconciliations of non-GAAP financial measures

To supplement our financial results presented in accordance with GAAP, this investor presentation includes references to the following measures defined by the Securities and Exchange Commission as non-GAAP financial measures: non-GAAP operating margin, Adjusted Operating Margin, non-GAAP income from operations, Adjusted Income from Operations, non-GAAP diluted EPS, Adjusted Diluted EPS, constant currency revenue growth, and free cash flow. These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures should be read in conjunction with our financial statements prepared in accordance with GAAP. The reconciliations of our non-GAAP financial measures to the corresponding GAAP measures are presented below and should be carefully evaluated. A full reconciliation of Adjusted Operating margin guidance to GAAP operating margin guidance on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to unusual items. Additionally, a full reconciliation of Adjusted Diluted EPS guidance to GAAP diluted EPS guidance on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to unusual items, net non-operating foreign currency exchange gains or losses, and the tax effects of these adjustments, all of which are adjustments to Adjusted Diluted EPS.

We believe providing investors with an operating view consistent with how we manage the Company provides enhanced transparency into our operating results. For our internal management reporting and budgeting purposes, we use various GAAP and non-GAAP financial measures for financial and operational decision-making, to evaluate period-to-period comparisons, to determine portions of the compensation for our executive officers and for making comparisons of our operating results to those of our competitors. Therefore, it is our belief that the use of non-GAAP financial measures excluding certain costs provides a meaningful supplemental measure for investors to evaluate our financial performance. Accordingly, we believe that the presentation of our non-GAAP financial measures along with a reconciliation to the most comparable GAAP measure, as applicable, can provide useful supplemental information to our management and investors regarding financial and business trends relating to our financial condition and results of operations.

A limitation of using non-GAAP financial measures versus financial measures calculated in accordance with GAAP is that non-GAAP financial measures do not reflect all of the amounts associated with our operating results as determined in accordance with GAAP and may exclude costs that are recurring, namely stock-based compensation expense, certain acquisition-related charges, and net non-operating foreign currency exchange gains or losses. In addition, other companies may calculate non-GAAP financial measures differently than us, thereby limiting the usefulness of these non-GAAP financial measures as a comparative tool. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from our non-GAAP financial measures to allow investors to evaluate such non-GAAP financial measures.

Reconciliations of Non-GAAP Financial Measures

Unaudited *(dollars in millions, except per share amounts)*	Three Months Ended December 31, 2018[a]	Three Months Ended December 31, 2017[a]	Twelve Months Ended December 31, 2018[a]	Twelve Months Ended December 31, 2017[a]	Guidance Full Year 2019
GAAP income from operations	$ 693	$ 657	$ 2,801	$ 2,481	
Realignment charges [b]	7	3	19	72	
Initial funding of Cognizant U.S. Foundation [c]	-	-	100	-	
Adjusted income from operations	700	660	2,920	2,553	
Stock-based compensation expense [d]	68	60	267	221	
Acquisition-related charges [e]	39	34	158	138	
Non-GAAP income from operations	$ 807	$ 754	$ 3,345	$ 2,912	
GAAP operating margin	16.8%	17.2%	17.4%	16.8%	
Effect of realignment charges	0.2	0.1	0.1	0.5	(b)
Effect of initial funding of Cognizant U.S. Foundation	-	-	0.6	-	-
Adjusted operating margin	17.0%	17.3%	18.1%	17.3%	approximately 19.0%
Effect of stock-based compensation expense	1.6	1.6	1.6	1.5	
Effect of acquisition-related charges	0.9	0.8	1.0	0.9	
Non-GAAP operating margin	19.5%	19.7%	20.7%	19.7%	
GAAP diluted earnings per share	$ 1.12	$ (0.03)	$ 3.60	$ 2.53	
Effect of realignment charges and initial funding of Cognizant U.S. Foundation, as applicable, pre-tax	0.01	-	0.20	0.12	(b)
Effect of non-operating foreign currency exchange (gains) losses, pre-tax [f]	(0.14)	(0.04)	0.26	(0.12)	(f)
Tax effect of above adjustments [g]	(0.01)	(0.01)	(0.03)	(0.06)	(b), (f)
Effect of adjustment to the one-time income tax expense related to the Tax Reform Act [h]	-	1.04	(0.01)	1.04	-
Effect of recognition of income tax benefit related to an uncertain tax position [i]	-	-	-	(0.09)	-
Adjusted diluted earnings per share	$ 0.98	$ 0.96	$ 4.02	$ 3.42	at least $4.40
Effect of stock-based compensation expense and acquisition-related charges, pre-tax	0.18	0.16	0.73	0.60	
Tax effect of stock-based compensation expense and acquisition-related charges [g]	(0.03)	(0.09)	(0.18)	(0.25)	
Non-GAAP diluted earnings per share	$ 1.13	$ 1.03	$ 4.57	$ 3.77	

Please refer to page 13 and 14 of this earnings supplement for corresponding Non-GAAP notes.

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Reconciliations of Non-GAAP Financial Measures

Notes:

a) On January 1, 2018, we adopted the New Revenue Standard using the modified retrospective method. Results for reporting periods beginning on or after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies.

b) Realignment charges include severance costs, lease termination costs, and advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs, as applicable. Our 2017 and 2018 realignment initiatives were targeted at improving our cost structure primarily by optimizing our resource pyramid. The total costs related to the realignment are reported in "Selling, general and administrative expenses" in our consolidated statements of operations. We may continue to incur realignment charges in 2019. While we cannot provide realignment charges on a forward-looking basis without unreasonable effort because the amount and timing of such charges are uncertain, we expect to incur approximately $25 million in compensation and benefits costs associated with the CEO transition and the departure of our President in 2019.

c) During the second quarter of 2018, we provided $100 million of initial funding to Cognizant U.S. Foundation, which is focused on science, technology, engineering and math (or collectively, STEM) in the United States. This funding is not expected to recur at this magnitude in the foreseeable future.

d) Stock-based compensation expense reported in:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	**2017**	**2018**	**2017**
Cost of revenues	$ 16	$ 14	$ 62	$ 55
Selling, general and administrative expenses	52	46	205	166

e) Acquisition-related charges include, amortization of purchased intangible assets included in the depreciation and amortization expense line on our consolidated statements of operations, external deal costs, acquisition-related retention bonuses, integration costs, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs, as applicable.

f) Non-operating foreign currency exchange gains or losses, inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, are reported in "Foreign currency exchange gains (losses), net" in our consolidated statements of operations. Non-operating foreign currency exchange gains and losses are subject to high variability and low visibility and therefore cannot be provided on a forward-looking basis without unreasonable efforts.

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Reconciliations of Non-GAAP Financial Measures

g) Presented below are the tax impacts of each of our non-GAAP adjustments to pre-tax income:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Non-GAAP income tax benefit (expense) related to:				
Realignment charges	$ 2	$ 1	$ 5	$ 25
Initial funding of Cognizant U.S. Foundation	-	-	28	-
Foreign currency exchange gains and losses	3	6	(12)	10
Stock-based compensation expense	13	41	66	101
Acquisition-related charges	10	13	38	48

The effective tax rate related to each of our non-GAAP adjustments varies depending on the jurisdictions in which such income and expenses are generated and the statutory rates applicable in those jurisdictions.

h) During the fourth quarter of 2017, in connection with the enactment of the Tax Reform Act, we recorded a one-time provisional net income tax expense of $617 million comprised of: (i) the one-time transitional tax expense on accumulated undistributed earnings of foreign subsidiaries of $635 million and (ii) foreign and U.S. state income tax expense that will be applicable upon repatriation of the accumulated undistributed earnings of our foreign subsidiaries, other than our Indian subsidiaries, of $53 million, partially offset by (iii) an income tax benefit of $71 million resulting from the revaluation of U.S. net deferred income tax liabilities to the new lower U.S. income tax rate. During the third quarter of 2018, we finalized our calculation of this one-time net income tax expense and recognized a $5 million income tax benefit, which reduced our provision for income taxes.

i) During the first quarter of 2017, we recognized an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position of $55 million. The recognition of the benefit was based on management's reassessment regarding whether this unrecognized tax benefit met the more-likely-than-not threshold in light of the lapse in the statute of limitations as to a portion of such benefit.

Reconciliation of Free Cash Flow

	Three Months Ended December 31,		Twelve Months Ended December 31,	
(in millions)	2018	2017	2018	2017
Net cash provided by operating activities	$ 702	$ 836	$ 2,592	$ 2,407
Purchases of property and equipment	(96)	(80)	(377)	(284)
Free cash flow	$ 606	$ 756	$ 2,215	$ 2,123

The above tables serve to reconcile the Non-GAAP financial measures to comparable GAAP measures. Please refer to the "About Non-GAAP Financial Measures" section of our press release for further information on the use of these Non-GAAP measures.

